

Message Text

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ACTION NEA-12

INFO OCT-01 ISO-00 AID-20 IGA-02 L-03 ABF-01 H-03 SS-20

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FM AMEMBASSY NEW DELHI

TO SECSTATE WASHDC 7528

INFO AMCONSUL BOMBAY

AMCONSUL CALCUTTA

AMCONSUL MADRAS

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E.O.: 11652: N/A

TAGS: EFIN, IN

SUBJECT: RUPEE NEGOTIATIONS

REF: STATE'S 134136

1. OWING AMBASSADOR'S ILLNESS, AID DIRECTOR AND ECON COUNSELOR MET WITH KAUL OCT 19 TO HAND OVER OUR REVISED DRAFT OF RUPEE AGREEMENT. COPIES POUCHED BORN NEA/INS. AID DIRECTOR SAID WE HOPED THIS WOULD BE FINAL VERSION. HE ALSO EXPLAINED PRESIDENT'S DETERMINATION PROCEED WITH RUPEE SETTLEMENT EVEN IF BYRD AMENDMENT IS ENACTED. IN OCT 24 MTG WITH KAUL AMBASSADOR STRESSED NEED FOR FINAL SATISFACTORY PACKAGE. KAUL PROMISED REPLY IN ABOUT 10 DAYS.

2. AID DIRECTOR EXPLAINED THAT NEW VERSION CONTAINS DEFINITIVE LANGUAGE ON FIVE PREVIOUSLY UNRESOLVED ISSUES:

A. MAINTENANCE OF VALUE: INDIAN PROPOSAL FOR MOV FOR ONE YEAR WAS NOT ACCEPTABLE TO WASHINGTON AGENCIES. WE PROPOSED MOV FOR DOLS 650 MILLION OF OUR RETAINED RUPEE HOLDINS, DECLINING AUTOMATICALLY TO ZERO IN EQUAL STAGES OVER FIFTEEN YEARS.

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B. CONVERSIONS: WE REAFFIRMED USG POSITION FOR 3 PERCENT OF PRINCIPAL AND SALES PROCEEDS, OR CONVERSION OBLIGATION OF DOLS 72.6 MILLION OVER TEN YEARS. ARREARS OF DOLS 14 MILLION ARE INCLUDED IN THE AMOUNT TO BE REPAID OVER TEN YERAS.

C. COOLEY LOANS: FOR BASICALLY POLITICAL REASONS, WE MUST RETAIN COOLEY LOAN PORTFOLIO AMOUNTING TO APPROXIMATELY DOLS 150 MILLION IN OUTSTANDING LOANS (INCLUDING INTEREST). TO REDUCE IMPACT THIS HAS IN INCREASING RUPEES US GOVERNMENT RETAINS, WE WOULD TAKE THE DOLS 72.6 MILLION OF CONVERSIONS OUT OF THIS PORTFOLIO. WE WOULD ALSO FINANCE DOLS 24 MILLION OF AID TO NEPAL, AND ALONG WITH OTHER US USES, COULD MAKE MONDALE POAGE GRANTS FOR SUCH USES AS BOTH GOVERNMENTS FIND APPROPRIATE.

D. TRAINING OF NEPALIS IN INDIA: AID DIRECTOR REFERRED TO UNDERSTANDING REACHED BETWEEN DCM SCHNEIDER AND KAUL FOR THE USE OF OUR RETAINED RUPEES FOR TRAINING NEPALIS IN INIDA. KAUL CONFIRMED THAT SUCH AN AGREEMENT HAD BEEN REACHED PROVIDED SUCH USE OF RUPEES COULD BE CONSIDERED A PREVIOUSLY ESTABLISHED USE.

3. LEND LEASE SETTLEMENT: ALTHOUGH OUTSIDE THE RUPEE AGREEMENT AS SUCH, PAYMENT OF THE LEND LEASE DEBT HAS CONSIDERABLE IMPACT ON THE RUPEE SETTLEMENT. BECAUSE WE RECOGNIZE INDIA'S PROBLEM WITH THIS PREPARTITION DEBT, AID DIRECTOR SAID WE WOULD BE PREPARED TO ACCEPT ANY LANGUAGE PROPOSED BY THE INDIANS THAT SETTLEMENT OF THIS DEBT IN NO WAY CONSTITUTES A PRECEDENT FOR OTHER PREPARTITION DEBTS. AGREEMENT COULD TAKE THE FORM OF AN EXCHANGE OF LETTERS TOTALLY SEPARATE FROM THE RUPEE AGREEMENT.

3. KAUL SAID THAT "SIGNIFICANT CHANGES BEING INTRODUCED INTO THE AGREEMENT AT THIS LATE STAGE WERE UNSETTLING." WE REPLIED THAT MOST OF THE CHANGES WERE IN LINE WITH EARLIER GENERAL UNDERSTANDINGS.

KAUL ADDED THAT GOI WOULD TAKE ALL OF OUR PROPOSALS UNDER CONSIDERATION, BUT INDICATED THAT ACCEPTANCE OF SOME OF THEM WOULD NOT BE EASY. HE SAID THAT THEY FELT THE ONE-YEAR MOV OFFER HAD BEEN QUITE FORTHCOMING. KRISHNASWAMI, WHO WAS ALSO AT MEETING, ASKED IF IT MIGHT NOT BE POSSIBLE TO SCALE THE NUMBER OF YEARS DOWN TO PERHAPS TEN. BOTH AID DIRECTOR AND ECON COUNSELOR EXPRESSED EXTREME DOUBT THAT ANY SHORTENING WOULD BE ACCEPTABLE.

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KAUL SAID THE AMOUNT WE ARE ASKING FOR IN CONVERSIONS LEADS TO SERIOUS PROBLEMS BECAUSE IT IS A FOREIGN EXCHANGE OUTFLOW.

4. AS REGARDS THE SURPLUS PROPERTY DEBT, KAUL AGREED THE AMOUNT IS NOT LARGE, BUT HE FELT THAT IT WAS VERY LATE IN THE DAY TO BE PURSUING THIS PREPARTITION DEBT WHICH IS UNRELATED TO THE RUPEE ISSUE. WE POINTED OUT THAT INDIA HAS ALREADY PAID MOST OF THIS DEBT. KAUL REITERATED THAT THE INDIAN SIDE WILL CONSIDER ALL

OUR POINTS.

5. KAUL AGAIN ASKED IF IT WOULD BE POSSIBLE TO LIMIT OUR EXPENDITURES FROM RETAINED RUPEES TO A SPECIFIC NUMBER OF YEARS. US REPS EXPLAINED THAT THIS ISSUE HAD BEEN LONG SINCE RESOLVED IN THE NEGATIVE AND EXPRESSED SURPRISE IT WAS EVEN BEING RAISED AGAIN.

6. COMMENT: MEETING WAS AMICABLE, BUT IT DEMONSTRATED CONTINUED INDIAN DESIRE TO NIGGLE. ALTHOUGH WE HAVE REPEATEDLY EMPHASIZED SERIOUSNESS OF CONGRESSIONAL OPPOSITION AND THE IRREDUCIBLE MINIMUM OF OUR PACKAGE, THEY ARE UNLIKELY TO RESPOND UNTIL EARLY NOVEMBER AND THEN WILL PROBABLY SEEK ADDITIONAL COMPROMISES. END COMMENT.

7. ON OCT 24 AMBASSADOR MET WITH KAUL TO UNDERLINE IMPORTANCE USG ATTACHED TO SATISFACTORY SOLUTION OF OUTSTANDING ISSUES. OUR DRAFT REPRESENTED PACKAGE DEVELOPED IN WASHINGTON AND REFLECTED POLITICAL NECESSITIES AS SEEN IN ADMINISTRATION AND ON THE HILL. KAUL APPEARED TO UNDERSTAND THAT TIME FOR HAGGLING WAS OVER AND THAT FINAL PACKAGE NEEDED. NOT UNEXPECTEDLY, HE STATED MOV AND CONVERSIONS WERE MOST DIFFICULT ISSUES. HE HOPED TO BE ABLE TO COME BACK TO US IN ABOUT 10 DAYS WITH REPLY. (EARLIER REPLY WAS IMPOSSIBLE SINCE PRIME MINISTER ABSORBED IN DOMESTIC POLITICS.)
MOYNIHAN

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